

SCHEDULE A

AN ANNUAL BUDGET AND SUPPORTING DOCUMENTATION OF UMZUMBE MUNICIPALITY

DRAFT ANNUAL BUDGET OF

Umzumbe Municipality



2013/2014 TO 2015/2016
MEDIUM TERM REVENUE AND
EXPENDITURE FORECASTS

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Abbreviations and Acronyms

AMR	Automated Meter Reading	ℓ	litre
ASGISA	Accelerated and Shared Growth Initiative	LED	Local Economic Development
BPC	Budget Planning Committee	MEC	Member of the Executive Committee
CBD	Central Business District	MFMA	Municipal Financial Management Act Programme
CFO	Chief Financial Officer	MIG	Municipal Infrastructure Grant
CM	City Manager	MMC	Member of Mayoral Committee
CPI	Consumer Price Index	MPRA	Municipal Properties Rates Act
CRRF	Capital Replacement Reserve Fund	MSA	Municipal Systems Act
DBSA	Development Bank of South Africa	MTEF	Medium-term Expenditure Framework
DoRA	Division of Revenue Act	MTREF	Medium-term Revenue and Expenditure Framework
DWA	Department of Water Affairs	NERSA	National Electricity Regulator South Africa
EE	Employment Equity	NGO	Non-Governmental organisations
EEDSM	Energy Efficiency Demand Side Management	NKPIs	National Key Performance Indicators
EM	Executive Mayor	OHS	Occupational Health and Safety
FBS	Free basic services	OP	Operational Plan
GAMAP	Generally Accepted Municipal Accounting Practice	PBO	Public Benefit Organisations
GDP	Gross domestic product	PHC	Provincial Health Care
GDS	Gauteng Growth and Development Strategy	PMS	Performance Management System
GFS	Government Financial Statistics	PPE	Property Plant and Equipment
GRAP	General Recognised Accounting Practice	PPP	Public Private Partnership
HR	Human Resources	PTIS	Public Transport Infrastructure System
HSRC	Human Science Research Council	RG	Restructuring Grant
IDP	Integrated Development Strategy	RSC	Regional Services Council
IT	Information Technology	SALGA	South African Local Government Association
kℓ	kilolitre	SAPS	South African Police Service
km	kilometre	SDBIP	Service Delivery Budget Implementation Plan
KPA	Key Performance Area	SMME	Small Micro and Medium Enterprises
KPI	Key Performance Indicator		
kWh	kilowatt		

Part 1 – Annual Budget

1. Mayor's Report

It gives me great pleasure to table before this council our draft budget for the financial year 2012/2013. The tabling of this final budget today is done in compliance with the requirements of the Municipal Finance Management Act no 56 of 2003 section 16, which amongst other things states that:

- 1) The Council of the municipality must for each financial year approve an annual budget for the municipality before the start of the start
- 2) In order for the municipality to comply with subsection (1), the Mayor of the Municipality must table the annual budget at a council meeting at least 90 days before the start of the financial year.

Honorable, Speaker, the final budget that I am tabling before council today, takes into account, the national priorities, as presented by President Gedleyihlekisa Mhlanganyelwa Zuma, in the State of the Nation Address earlier this year. Furthermore, the Budget Speech, presented to the Nation by the Minister of Finance, Mr. Pravin Gordhan, has provided a foundation through which our projections are based. In addition, the Premier of KwaZulu Natal, Dr. Zweli Mkhize, in his State of the Province Address, has clearly articulated our provincial governments priorities for the coming year, and these have been further emphasized in the provincial budget speech, presented by, the MEC for finance in KwaZulu Natal, Ms. Ina Cronje.

In preparing the budget for the financial year 2013/14, we have aligned our priorities to the national and the provincial priorities to ensure that our programmes as Umzumbe are in line with our government's strategic framework on service delivery. This, we are doing to achieve the idea of a 'seamless' government.

In closing, Honorable Speaker, I want to assure all members of council that this budget will be presented to our community, through our public participation mechanisms, to afford our people an opportunity to engage fruitfully with us, and provide input to assist us in preparing our final 'peoples' budget.

I thank you

2. Council Resolutions

On 25 March 2013 the Council of Umzumbe Local Municipality will meet in the Council Chambers of Umzumbe Municipality to consider the annual budget of the municipality for the financial year 2013/2014. The Council is to approve and adopt the following resolutions:

The Council of Umzumbe Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

1. The annual budget of the municipality for the financial year 2013/14, tariffs and budget related policies.

3. Executive Summary

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Municipality is grant dependent and it is 100% rural with high poverty and very low employment rates. The Municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship.

The total revenue for the budget is R138,2 million. This is funded by government grants and subsidies of R132,2 million, Interest from investments of R1,6 million, Tender sales of R130 thousand and rates income of R4,1 million.

The total operating budget is R94,8 million and the total capital budget is R43,2 million.

National Treasury's MFMA Circular No. 58, 59, 66 and 67 were used to guide the compilation of the 2013/2014 MTREF.

The main challenges experienced during the compilation of the 2013/2014 MTREF can be summarised as follows:

1. The ongoing difficulties in the national and local economy;
2. Lack and poorly maintained roads infrastructure;
3. The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities;
4. Dependency on government grants;
5. Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
6. Affordability of capital projects;

4. Annual Budget Tables

The annual budget tables are contained in ANNEXURE A.

There are ten main budget tables as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality's 2013/2014 budget and MTREF as approved by the Council. Each table is accompanied by *explanatory notes*.

Schedule A1- Budget Summary

1. Table A1 is a budget summary and provides a concise overview of the Municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.

Schedule A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms of each of these functional areas which enables the National Treasury to compile 'whole of government' reports.
2. Note the Total Revenue on this table includes capital revenues (Transfers recognised – capital) and so does not balance to the operating revenue shown on Table A4.

Schedule A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

1. Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the Municipality. This means it is possible to present the operating surplus or deficit of a vote

Schedule A4 - Budgeted Financial Performance (revenue and expenditure)

1. Schedule A4 provides information about the financial performance. It indicates the revenue and expenditure.

Schedule A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
2. The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations. In relation to multi-year appropriations there is no budget allocated since the municipality does not have multi-year capital projects.

Schedule A6 - Budgeted Financial Position

1. Table A6 is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).
2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as "accounting" Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.
3. Table SA3 is supported by an extensive table of notes providing a detailed analysis of the major components of a number of items, including:
 1. Call investments deposits;
 1. Consumer debtors;
 2. Property, plant and equipment;
 3. Trade and other payables;
 4. Provisions non current;
 5. Changes in net assets; and
 6. Reserves
4. The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.
5. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact

on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition the funding compliance assessment is informed directly by forecasting the statement of financial position.

Schedule A7 - Budgeted Cash Flow Statement

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.
2. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
3. The 2013/2014 MTREF has been informed by the planning principle of ensuring adequate cash reserves over the medium-term.

Schedule A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".
4. Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.
5. As part of the budgeting and planning guidelines that informed the compilation of the 2013/14 MTREF the end objective of the medium-term framework was to ensure the budget is funded aligned to section 18 of the MFMA.

Schedule A9 - Asset Management

1. Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.
2. National Treasury has recommended that municipalities should allocate at least 40 per cent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be 8 per cent of PPE. However due to the fact that there is a lack of infrastructure in the municipality, it does not meet the recommendation.

Schedule A10 - Basic Service Delivery Measurement

1. Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services.
2. The municipality does not provide services such as water, sanitation, energy and refuse removal.
3. Water and sanitation is provided by Ugu District municipality, energy is supplied by Eskom.
4. Currently there is no refuse removal in the municipality.

5.

Part 2 – Supporting Documentation

Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the MMC for Finance.

The primary aims of the Budget Steering Committee is to ensure:

1. that the process followed to compile the budget complies with legislation and good budget practices;
2. that there is proper alignment between the policy and service delivery priorities set out in the Municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
3. that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
4. that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

Budget Process Overview :

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2012) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required the IDP and budget time schedule. Key dates applicable to the process were:

1. **July 2012** – Prepare joint process plan for IDP, PMS and Budget and advertise draft IDFP review;
2. **August 2012**–Submit process plan to IDP forum, portfolio committees and council. Liaise with national and provincial governments for planning and budgeting process;
3. **September 2012**– Assessment of objectives, strategies and projects against cross cutting issues.Assessment of alignment of IDP strategies & projects for medium term in relation to NSDP and PGDF. Determine funding availability & requirements per sector plan and where relevant prepare business plan/ terms of reference and roll out accordingly;

4. **October 2012** – Review and confirm objectives, strategies and projects at IDPRF workshop. Review capital, institutional, operational, maintenance projects. Estimate available resources and provide guidance for way forward for budgeting;
5. **November 2012**–Submit revised projects to Treasury. Submit first Draft IDP to IDP steering committee and council for in principle approval
6. **December 2012** – Submit budget instructions and 2013/2014 budget framework to all relevant persons. Submit draft IDP to COGTA for assessment. Preparation of summary of available funds (internal and external);
7. **January 2013** - Council considers the 2012/2013 Mid-year Review and Adjustments Budget;
8. **February 2013**– Assess financial feasibility of proposed new projects based on existing and potential funds. Consideration of draft budget;
9. **March 2013** - Tabling in Council of the draft 2013/2014 IDP and 2013/2014 MTREF for public consultation;
10. **April 2013**– Public consultation;
11. **May 2013**–finalisation of the 2013/2014 IDP and 2013/2014 MTREF, taking into consideration comments received from the public, comments from National Treasury, and updated information from the most recent Division of Revenue Bill and financial framework; and tabling of the 2013/14 MTREF before Council for consideration and approval.

There were no deviations from the key dates set out in the Budget Time Schedule tabled in Council.

IDP and Service Delivery and Budget Implementation Plan :

The Municipality's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan. The Process Plan applicable to the fifth revision cycle included the following key IDP processes and deliverables:

12. Registration of community needs;
13. Compilation of departmental business plans including key performance indicators and targets;
14. Financial planning and budgeting process;
15. Public participation process;
16. Compilation of the SDBIP, and
17. The review of the performance management and monitoring processes.

The IDP has been taken into a business and financial planning process leading up to the 2013/2014 MTREF, based on the approved 2012/2013 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2013/2014 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2012/2013 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master

planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

Financial Modelling and Key Planning Drivers :

As part of the compilation of the 2013/2014 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2013/2014 MTREF:

18. Municipality growth
19. Policy priorities and strategic objectives
20. Asset maintenance
21. Economic climate and trends (i.e inflation)
22. Performance trends
23. The approved 2012/2013 adjustments budget and performance against the SDBIP
24. Cash Flow Management Strategy
25. Debtor payment levels
26. Investment possibilities
27. The need for tariff increases versus the ability of the community to pay for services;
28. Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 58, 59, 66 and 67 has been taken into consideration in the planning and prioritisation process.

Community Consultation :

The draft 2013/2014 MTREF as tabled before Council for community consultation will be published on the municipality's website, and hard copies has been made available at municipal offices and other community centres. In addition budget road shows will be held in different municipal clusters. Inputs will also be collected via e-mails.

All documents in the appropriate format (electronic and printed) will be provided to National Treasury, and other national and provincial departments in accordance with section 23 of the MFMA, to provide an opportunity for them to make inputs.

Ward Committees will be utilised to facilitate the community consultation process. The applicable dates and venues were published in all the local newspapers. Imbizo's will be held to further ensure transparency and interaction. Other stakeholders involved in the consultation will include churches, non-governmental institutions and community-based organisations.

Submissions received during the community consultation process and additional information regarding revenue and expenditure and individual capital projects will be addressed, and where relevant considered as part of the finalisation of the 2013/2014 MTREF.

Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the Municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the Municipality's strategically complies with the key national and provincial priorities.

The aim of this revision cycle was to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the Municipality's response to these requirements.

The national and provincial priorities, policies and strategies of importance include amongst others:

- 29. Green Paper on National Strategic Planning of 2009;
- 30. Government Programme of Action;
- 31. Development Facilitation Act of 1995;

32. Provincial Growth and Development Strategy (GGDS);
33. National and Provincial spatial development perspectives;
34. Relevant sector plans such as transportation, legislation and policy;
35. National Key Performance Indicators (NKPis);
36. Accelerated and Shared Growth Initiative (ASGISA);
37. National 2014 Vision;
38. National Spatial Development Perspective (NSDP) and
39. The National Priority Outcomes.

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP. The following table highlights the IDP's six strategic objectives for the 2013/2014 MTREF and further planning refinements that have directly informed the compilation of the budget:

Table 11 IDP Strategic Objectives

2013/14 Financial Year	
1.	Financial Viability
2.	Basic Service delivery and infrastructure
3.	Good governance and public participation
4.	Local economic Development
5.	Municipal transformation and institutional development
6.	Spatial analysis and environmental management

In order to ensure integrated and focused service delivery between all spheres of government it was important for the Municipality to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

In line with the MSA, the IDP constitutes a single, inclusive strategic plan for the Municipality. The five-year programme responds to the development challenges and opportunities faced by the Municipality by identifying the key performance areas to achieve the five the strategic objectives mentioned above.

In addition to the five-year IDP, the municipality undertakes an extensive planning and developmental strategy which primarily focuses on a longer-term horizon; 15 to 20 years. This process is aimed at influencing the development path by proposing a substantial programme of public-led investment to restructure current patterns of settlement, activity and access to resources in the Municipality so as to promote greater equity and enhanced opportunity. It provides direction to the Municipality's IDP, associated sectoral plans and strategies, and the allocation of resources of the Municipality and other service delivery partners.

The 2013/14 MTREF has therefore been directly informed by the IDP revision process.

Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the Municipality has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assesses and reviews organisational performance which in turn is directly linked to individual employee's performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance. Although performance information is reported publicly during the last stage, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages.

The performance of the Municipality relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The Municipality therefore has adopted one integrated performance management system which encompasses:

40. Planning (setting goals, objectives, targets and benchmarks);
41. Monitoring (regular monitoring and checking on the progress against plan);
42. Measurement (indicators of success);
43. Review (identifying areas requiring change and improvement);
44. Reporting (what information, to whom, from whom, how often and for what purpose); and
45. Improvement (making changes where necessary).

The performance information concepts used by the Municipality in its integrated performance management system are aligned to the **Framework of Managing Programme Performance Information** issued by the National Treasury:

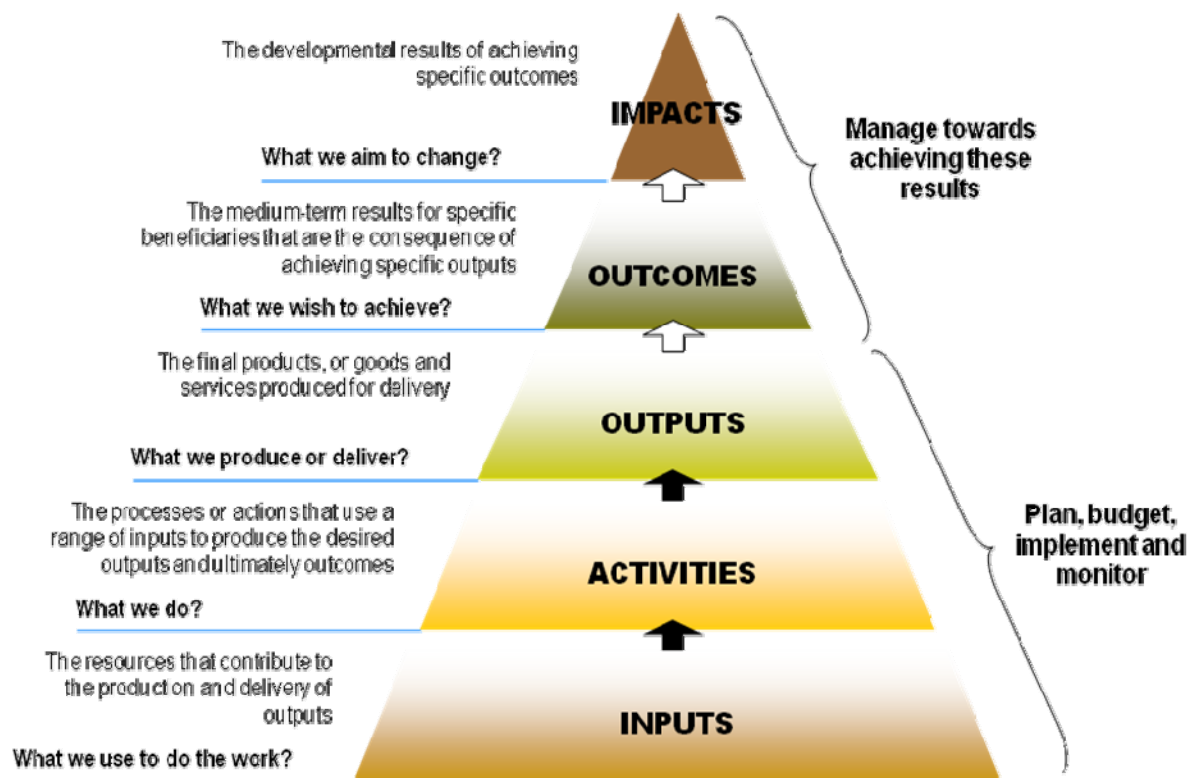


Figure 1 Definition of performance information concepts

The municipality holds its quarterly reviews whereby performance is measured against targets.

Overview of budget related-policies

The Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

Credit control and debt collection procedures/policies :

The 2013/14 MTREF has been prepared on the basis of achieving an average debtors' collection rate of 92 per cent on current billings. In addition the collection of debt in excess of 90 days has been prioritised as a pertinent strategy in increasing the municipality's cash levels.

Asset Management policy :

A proxy for asset consumption can be considered the level of depreciation each asset incurs on an annual basis. Preserving the investment in existing infrastructure needs to be considered a significant strategy in ensuring the future sustainability of infrastructure.

The Asset Management Policy is considered a strategic guide in ensuring a sustainable approach to asset renewal, repairs and maintenance and is utilised as a guide to the selection and prioritisation of individual capital projects. In addition the policy prescribes the accounting and administrative policies and procedures relating to property, plant and equipment (fixed assets).

Supply Chain Management Policy :

The Supply Chain Management Policy was adopted by Council and is currently under review.

Review of Budget Policy :

The Budget Policy is tabled together with the budget. The Budget Policy aims to empower senior managers with an efficient financial and budgetary amendment and control system to ensure optimum service delivery within the legislative framework of the MFMA and the Municipality's system of delegations.

Cash Management and Investment Policy :

The aim of the policy is to ensure that the Municipality's surplus cash and investments are adequately managed, especially the funds set aside for the cash backing of certain reserves. The policy details the minimum cash and cash equivalents required at any point in time and introduces time frames to achieve certain benchmarks.

Tariff Policies :

The Municipality's tariff policies provide a broad framework within which the Council can determine fair, transparent and affordable charges that also promote sustainable service delivery. The policies have been approved on various dates and a consolidated tariff policy is envisaged to be compiled for ease of administration and implementation.

Overview of budget assumptions

External factors :

The Medium Term Budget Policy Statement 2012 notes that the South African economy is projected to grow by 2.5 per cent in 2012. By 2014 GDP growth is expected to reach 3.8 per cent, supported by expanding public sector investment in infrastructure, the activation of new electricity-generating capacity, improving public sector confidence, relatively low inflation and interest rates and strong growth in the Southern African region.

Owing to the economic slowdown, financial resources are limited due to reduced payment levels by consumers. This has resulted in declining cash inflows, which has necessitated restrained expenditure to ensure that cash outflows remain within the affordability parameters of the Municipality's finances.

General inflation outlook and its impact on the municipal activities :

There are five key factors that have been taken into consideration in the compilation of the 2013/14 MTREF:

46. National Government macro economic targets;
47. The general inflationary outlook and the impact on Municipality's residents and businesses;
48. The impact of municipal cost drivers;
49. The increase in the cost of remuneration.

Collection rate for revenue services :

The rate of revenue collection is currently expressed as a percentage (92 per cent) of annual billings. Cash flow is assumed to be 92 per cent of billings. The performance of arrear collections will however only be considered a source of additional cash in-flow once the performance has been carefully monitored. The municipality's debtors are a result of property rates. The property rates categories are households, business and government. Households remain a challenge in the collection of rates. In addition tariffs remain unchanged for the 2013/14 budget.

Salary increases :

The collective agreement regarding salaries/wages came into operation on 1 July 2009 and shall remain in force until 30 June 2014. The negotiations are currently underway for the period beginning on 1 July 2013 however the increase of 9% has been provided for in the 2013/14 budget, pending the outcome of the negotiations.

Impact of national, provincial and local policies :

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and in this regard various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:

- 50. Creating jobs;
- 51. Infrastructure development;
- 52. Enhancing education and skill development;
- 53. Improving Health services;
- 54. Rural development and agriculture; and
- 55. Fighting crime and corruption.

To achieve these priorities integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

Overview of budget funding

Medium term revenue :

Umzumbe Municipality mainly depends on government grants and subsidies.

Operational grants and subsidies amount to R132.2 million, R146.1 million and R171.6 million for each of the respective financial years of the MTREF, and accounts for more than 95 per cent of operating revenue. It needs to be noted that in real terms the grants receipts from national government are growing rapidly over the MTREF.

Investment revenue contributes 1 per cent to the revenue base of the municipality with a budget allocation of R1.6 million, R1.7 million and R2.1 million for the respective three financial years of the 2013/14 MTREF.

Tender sales of R130 thousand and rates income of R4,1million also contribute to funding the budget. The actual performance against budget will be carefully monitored. Any variances in this regard will be addressed as part of the mid-year review and adjustments budget.

Medium-term outlook: capital revenue :

The Municipality's capital budget is funded by the Municipal Infrastructure Grant and the surplus for Equitable share.

The Municipal Infrastructure Grant for the MTERF is 31.2 million, 33.4 million and 35.6 million for respective years.

Cash Flow Management :

Cash flow management and forecasting is a critical step in determining if the budget is funded over the medium-term.

Cash Backed Reserves/Accumulated Surplus Reconciliation :

MFMA Circular 42 deals with the funding of a municipal budget in accordance with sections 18 and 19 of the MFMA. It seeks to answer three key questions regarding the use and availability of cash:

56. What are the predicted cash and investments that are available at the end of the budget year?
57. How are those funds used?
58. What is the net funds available or funding shortfall?

A surplus would indicate the cash-backed accumulated surplus that was/is available. A shortfall (applications > cash and investments) is indicative of non-compliance with section 18 of the MFMA requirement that the municipality's budget must be 'funded'. Non-compliance with section 18 is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded (budgeted spending is greater than funds available or to be collected). It is also important to analyse trends to understand the consequences, e.g. the budget year might indicate a small surplus situation, which in itself is an appropriate outcome, but if in prior years there were much larger surpluses then this negative trend may be a concern that requires closer examination.

Funding compliance measurement :

National Treasury requires that the municipality assess its financial sustainability against fourteen different measures that look at various aspects of the financial health of the municipality. All the information comes directly from the annual budgeted statements of financial performance, financial position and cash flows. The funding compliance measurement essentially measures the degree to which the proposed budget complies with the funding requirements of the MFMA.

Expenditure on allocations and grant programmes

The municipality sources of revenue are Government Grants and Subsidies, Interest from investments, Tender Sales, Rates Income. With regards to government grants, the municipality will receive allocations from Equitable share, Municipal Systems Improvement Grant (MSIG), Local Government Financial Management Grant (FMG), Municipal Infrastructure Grant (MIG), Rural Household Infrastructure Grant. The municipality plans to spend the full amount for each grant as per the budget.

Allocations and grants made by the municipality

The municipality has shared services agreements with Umdoni Municipality for firefighting and Hibiscus Coast Tourism for promotion and development of tourism in Umzumbe.

March 2013

Councilors and employee benefits

The total budget amount of salaries for employees and councilors is R41 million which represents 30% of the budget. This comprises R10.9 million for councilors and R30.1 million for staff.

Monthly targets for revenue, expenditure and cash flow

The municipality is predominantly funded by grants. The payment schedules for these grants indicate which months these grants will be deposited into the municipality's primary bank account. The municipality has taken this into account in terms of the planning of its cash flow. The revenue earned from interest will be on a monthly basis as investments are planned to be held throughout the year. The sale of tender documents is based on a monthly plan of list of projects. The fees earned from sale of tender documents are anticipated to be collected monthly.

The expenditure is projected to be evenly incurred during the financial year taking into account the timing of the revenue. This is to ensure that there is no over expenditure.

Annual budget and service delivery and budget implementation plans – internal department

The municipality comprises the following departments : Municipal managers office, Financial services ,Technical services, Corporate services & Community and Social services. Each department in the municipality has conducted strategic review sessions. This formed the basis for the review of the service delivery and budget implementation plans.

Contracts having future budgetary implications

No contracts are awarded beyond the medium-term revenue and expenditure framework (three years).

Capital expenditure details

The capital budget is R43.3 million which is funded mainly from MIG. The major projects for the year include construction of roads, upgrading of sports fields, construction of a bakery and the purchase of plant.

Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1. In year reporting
Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days).
2. Internship programme
The Municipality is participating in the Municipal Financial Management Internship programme and has employed four interns undergoing training in various divisions of the Financial Services Department. One more intern is to be employed during the course of the year.
3. Budget and Treasury Office
The Budget and Treasury Office has been established in accordance with the MFMA.
4. Audit Committee
An Audit Committee is shared with other municipalities within the district and is fully functional.
5. Service Delivery and Implementation Plan
The detail 2013/14 draft SDBIP document will be finalised and will be tabled before council.
6. Annual Report
Annual report is compiled in terms of the MFMA and National Treasury requirements.

Municipal manager's quality certificate

I, municipal manager of Umzumbe Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name _____

Municipal manager of Umzumbe Municipality (KZN213)

Signature _____

Date _____